IDAHO COLLEGE SAVINGS PROGRAM

The Idaho College Savings Program, IDeal, is Idaho's official 529 college savings program created under the provisions of Section 529 of the Internal Revenue Code. The program helps families save money to pay the higher education costs of a designated beneficiary, while receiving a tax benefit for their contribution.

Upromise Investments, Inc. manages the IDeal Program, which offers a variety of investment options.

How do I set up an account?

If you want to open an IDeal account, you must contact Upromise. **You can't set up an account that qualifies as an Idaho College Savings Account at any other financial institution.** You can call Upromise at (866) 433-2533 toll free or visit the Web site at **www.idsaves.org**.

When you open the account, you become the account owner. You must name the designated beneficiary who will use the funds to pay his or her higher education expenses.

What is "higher education"?

Higher education is education beyond high school at a qualifying educational institution. Qualifying educational institutions include accredited private or public colleges, universities, and trade or graduate schools that are eligible to participate in the Department of Education student aid programs. They include educational institutions throughout the United States and some schools abroad.

What higher education expenses qualify?

Qualifying higher education expenses include tuition, fees, books, supplies, and equipment required for the beneficiary to enroll at or attend a qualifying educational institution. If the beneficiary is enrolled at least half-time, some room and board expenses also qualify. The room and board is limited to the amount normally charged by that institution for on-campus living.

To distribute money from the account to pay the higher education expenses, call Upromise or visit the Web site. Upromise can make the funds payable to you, the beneficiary, or an eligible educational institution.

What are the tax benefits?

You can claim an Idaho income tax deduction for your contribution to the account of up to $4,000 per year or $8,000 if you're married and file a joint return. You must make the contribution by December 31 to claim the deduction for that calendar year. You can't take the contribution as a federal income tax deduction. Neither the state nor the federal government will tax the amount the account earns while the funds remain in the account.

What if the designated beneficiary doesn't use the account?

You can transfer the account to a family member of the beneficiary to provide for his or her qualified higher education without penalty and without the earnings being subject to income tax. (A transfer may be subject to the gift tax or the generation skipping transfer tax. Consult your tax professional.) For the IDeal Program, "family member" means one of the following:

- Spouse
- Child or stepchild
- Grandchild
- Brother, sister, stepbrother, or stepsister
- Parent or grandparent
- Stepmother or stepfather
- Niece or nephew
- Aunt or uncle
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law
- Spouse of any individual listed above
- First cousin

What happens if money is withdrawn from the account?

If the withdrawal is used to pay the beneficiary's qualified higher education expenses, the beneficiary doesn't owe federal or state income tax on the earnings or the principal.

If the money is withdrawn because the beneficiary dies, becomes disabled, receives a scholarship, or uses the money to pay the cost of his or her advanced education at a qualifying military academy, the person who receives the money owes federal and state income tax on the earnings portion of the withdrawal.

If the money is withdrawn for any other reason not mentioned in the previous two paragraphs, the person who receives the money owes federal income tax and the federal 10 percent additional tax on the earnings portion of the withdrawal. The account owner owes state income tax on the earnings and principal portions of the withdrawal.

Can I still benefit from the other tax incentives for higher education?

You may be able to claim a Hope or Lifetime Learning Credit (education credit) in the same year the beneficiary takes a tax-free distribution from the account, as long as the same expenses are not used for both benefits. Educational institutions that determine a student's eligibility for financial aid will treat the balance in the account as an asset of the beneficiary's parents if a parent is the account owner.

Can I transfer ownership of the account?

You can transfer account ownership to a qualified person without penalty, if:

- The transfer is irrevocable, and
- All the powers of ownership transfer.

You can designate someone to become the owner of your account upon your death.

How do I contribute to the account?

The minimum contribution you can make at any time is $25, unless you make the contribution through your employer as a payroll deduction. The minimum payroll deduction is $15. You must make the contribution by December 31 to claim the deduction for that calendar year. The contribution is considered made when it's postmarked. The account balance can't exceed $310,000.

You don't have to be the account owner to contribute to an account and take the deduction.

What happens if I roll the account into another state's college savings program?

If you withdraw the funds in the account and transfer them to a qualified program operated by another state, you must include the amount transferred in your Idaho taxable income.

For more information, contact:

- Idaho State Tax Commission: In the Boise area, 334-7660; Toll free, (800) 972-7660
- Hearing impaired: TDD (800) 377-3529
- **tax.idaho.gov**

This information was prepared by the Idaho State Tax Commission. It does not provide comprehensive explanations of Idaho tax laws or rules. Specific questions should be addressed to the Tax Commission.